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C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 000699

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SUBJECT: DEAL OR NO DEAL? NIYAZOV PLAYS HARBALL ON  
TURKMENISTAN,S GAS PRICE

REF: ASHGABAT 673

Classified By: Classified by Ambassador Tracey A. Jacobson, reasons 1.4  
(b) and (d).

Summary

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11. (C) On June 29 GazProm Chairman Alexei Miller returned to Turkmenistan to discuss gas prices with President Niyzaov )- his second visit in less than two weeks. The following day, a Ukrainian delegation headed by Minister Plachkov met with Oil and Gas Minister Atayev for a similar negotiation. Both meetings were inconclusive for Russia and Ukraine, both insisting that they have existing contracts while Niyazov -- emboldened by his previous success in getting a higher price for Turkmen gas -- is not budging on his asking price of \$100 per billion cubic meters. END SUMMARY

It,s (Alexei) Miller Time!  
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12. (C) Shortly after being summoned on June 19 (reftel) to negotiate prices for Turkmenistan,s natural gas with President Niyazov, GazProm,s Alexei Miller returned on June 29 for another round of talks. According to Foreign Minister Meredov, Miller and Niyazov met for over three hours, with Miller offering to buy the Turkmen gas contracted for the first half of 2006 -- 30 bcm -- by the end of September, for the previously agreed price of \$65/tcm. He made a proposal for Turkmenistan to sell gas to Ukraine only in the fourth quarter, for &the best price they could get,8 in order to fill Ukraine's gas reservoirs for the coming winter. Miller also said Russia would sign a contract for up to 50 per billion cubic meters (bcm) in 2007 for the Ukrainian price, plus and an additional 10 percent.

13. (C) Niyazov rejected this offer, saying it was impossible to sell gas for just one quarter (Note: FM Meredov also characterized the offer as a "sneaky" collaboration between the Russians and the Ukrainians. End Note.). Niyazov also told Miller that after Turkmenistan delivers the contracted 30/bcm to Russia in September, it will then be free to choose its buyers, selling at the border, and will be free to support various pipeline projects, including Nabucco, and the proposed Trans-Afghan, and Trans-Caspian.

14. (C) Following this unsuccessful bid to keep prices low, Miller flew back to Moscow empty-handed to consult with

Russian President Putin. FM Meredov called Ambassador at home to report that after Miller,s return, the &top boss8 (Putin) called Niyazov to ask him to reconsider the proposal. Niyazov refused again, and they agreed to talk again on June 130.

Russian Scoff at Niyazov,s Price...

15. Russian Charge Andrei Krutko told Ambassador on June 29 that Niyazov,s proposed price for Turkmen gas -- \$100/bcm -- is "not economically feasible" for Russia. Krutko said that GazProm's prices for private domestic consumers (\$35/bcm) and enterprises (\$50/bcm) will not allow GazProm to buy Turkmen gas at much more than the current price of \$65/bcm, due to transit and compression costs. Krutko also insisted that Russia has enough gas to meet domestic and foreign obligations, and argued that the only reason to buy Turkmen gas was to "preserve Russia's reserves for future generations." If Niyazov continues to insist on \$100/bcm, Russia will simply not buy beyond the approximately 10 trillion cubic meters remaining on this year's 30 bcm contract.

...And Casts Aspersions on the Ukrainians

16. (C) Russian Charg Krutko also doubted the Ukrainians delegation would be able to make a deal either, arguing that Ukraine is not able to pay more than \$70/bcm at the border. He also said that the pipeline is only working at 30 percent capacity, implying due to Ukrainian sabotage (Note: most of Turkmenistan,s gas pipeline infrastructure is Ukrainian

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manufactured. End Note.).

Russians Stay on Message about Turkmenistan and Ukraine

17. (C) During a separate June 30 meeting with PolOff, Russian Economic Counselor Dyemyin said that Alexei Miller,s recent trips to Ashgabat were not unexpected since during last year visit by Russian FM Lavrov, Niyazov hinted that gas prices might go up. However, Dyemyin said that the \$100 price increase was &very sharp8 although he admitted that Niyazov,s argument for a price increase now was fair, given the recent agreement with Kazakhstan was for \$140/bcm. However, Dyemyin suggested that Niyazov should be &starting8 with a &more reasonable8 price of \$83 or \$85 per bcm instead. He noted that by September of this year, Turkmenistan will supply the remaining portion of the 30 bcm specified in their contract with Russia and then they need to make an agreement, because despite Turkmenistan,s ultimatum about cutting gas delivery without a contract, &it is technically impossible to store this gas.8 Dyemyin also speculated that after the G-8 Summit meeting in St. Petersburg, oil and gas prices will increase anyway.

18. (C) Concerning Ukraine, Dyemyin said that the \$100 price would potentially &ruin Ukraine,s economy8 because the gas will be more expensive in Ukraine due to the various transport costs. He also said that the &two precursors8 to any gas agreement would have to be that Ukraine a) pay its existing debt of \$64 million and b) conclude an agreement with Russia on the transit of Turkmen gas through Russia to Ukraine. Also, he defended GazProm,s non-market price variances between what it charges Ukraine and other CIS countries -- like Belarus or Armenia -- citing that prices are necessarily higher in countries where GazProm does not own the gas transport infrastructure.

Platchkov Meets with Atayev

19. (C) On June 29 and July 3, PolOff met with Alexander

Kucheruk and Igor Roman of the Ukrainian Embassy to discuss the Ukrainian delegation's activities. They acknowledged that Ukraine sent a large delegation headed by Plachkov and that their June 30 meeting was with Oil and Gas Minister Atayev, Deputy Minister Nuriyev, TurkmenGas Chairman Hajigurbanov and other members of Turkmenistan's petroleum sector. According to Roman and Kucheruk, Plachkov came to the table with nothing more than an attempt to get Turkmenistan to fulfill the terms of the signed in December (sales price between \$50 and \$60 per bcm).

¶10. (C) According to the Ukrainians, the Turkmenistani side proposed that Ukraine purchase between 10 and 11 bcm of gas during the fourth quarter at a price of \$100/bcm, after Turkmenistan has supplied Russia with the rest of the contracted gas volumes Atayev also said Turkmenistan would consider supplying gas in 2007 if Ukraine gets a transit license for gas export through Russia. Because the Ukrainians insisted that they have an existing contract at the lower \$50/bcm price, the negotiations were inconclusive. Roman also told PolOff that Ukrainian Prime Minister Tymoshenko planned to visit Moscow and later Turkmenistan in late July/early August, in order to discuss Central Asian gas supplies and transit arrangements.

¶11. (C) During the Plachkov meeting, the Ukrainians confirmed their \$64 million in debt to Turkmenistan for gas supplied from 2003-2005, and agreed to cover this amount through the supply of large pipes on September 4th. The government of Turkmenistan also agreed to recalculate the costs of several large Ukrainian investment projects, including the construction of a drainage and communication tunnel under Ashgabat, the Gotur-Depe compressor station and the construction of the railway bridge over the Amu-Darya river (Note: The Ukrainian diplomats confided to PolOff that much-needed repairs on Turkmenistan's gas transport system would work in their favor, since the Ukrainian-manufactured turbines and compressors are were in need of immediate renovation and faces imminent breakdown, according to recent conversations that Kucheruk had with TurkmenGaz

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representatives. End Note.).

Belarus Not A Factor

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¶12. (SBU) Despite numerous press reports from the Belarusian state claiming that the state gas transit concern BelTransGas sent a group of expert negotiators to discuss buying gas directly from Turkmenistan as part of their energy security plan, according to Belarusian First Secretary Andrey Malashevitch, this patently is not the case. During a meeting with PolOff on June 29, Malashevitch confirmed that a person who works for BelTransGas did come to Ashgabat for four days and had an informational meeting at the Ministry of Oil and Gas with a department head level official, but this was a personal friend of the Ambassador, and the meeting was just to provide official cover for the Ashgabat vacation of an old schoolmate.

Comment

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¶13. (C) Just like the carpet dealers in Tolkuchka Bazaar, Niyazov is asking an unreasonably high initial price for Turkmenistan's gas in hopes of settling on a better deal than he has now with Russia. Buoyed by this year's earlier success at extracting a higher price, and reveling in the pomp and ceremony of his many high-level trips and visits about gas, Niyazov is standing firm on his price for now. After three delegations have left Ashgabat in the past two weeks without any firm deals, it remains to be seen if his price posturing is pure bargaining bravado or if he's really willing to risk angering Russia - his gas, only real export route -- in order to squeeze more money out of them.

END COMMENT.

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